

Overview of State and Local Sales and Use Taxes



FISCAL RESEARCH DIVISION
A Staff Agency of the North Carolina General Assembly

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Sales & Use Tax as Revenue Source

» State Sales and Use Tax Revenue

- FY 2018-19: \$7.75 billion
- 2nd largest source of General Fund tax revenue (32% of the General Fund)
- Recent change: online sales tax collections
- Recent change: Expansion of sales tax base to repair, maintenance, and installation services

» Local Option Sales and Use Tax (LOST)

- FY 2018-19: \$3.5 billion
- Represents a much smaller percentage of local revenue
- County average – 14% of tax revenue
- City average – 9% of tax revenue

Interplay Between State and Local Sales Taxes

» Through Statute, the State holds the power in North Carolina sales taxation. The State:

- Determines what transactions are taxable.
- Sets the State tax rate and caps the amount locals may levy.
- Administers and collects the taxes.
- Establishes how the tax revenue may be used.
- Decides how LOST revenue is redistributed among the counties.
- Sets the parameters for how LOST revenue is distributed between the counties and their municipalities.

State General Sales Tax Rate is 4.75%

- » State general rate of tax applies to the retail sale, lease, or rental of the following:
 - All tangible personal property unless the transaction is specifically exempt from sales tax
 - Any services upon which the tax is specifically imposed
- » LOST applies to any sale taxed at the State general rate
 - Groceries included in a portion of the local tax base; exempt from the State tax base
 - Local rates vary from 2% to 2.75%

State Combined General Rate is 7%

» Applies to the following transactions:

- Spirituous liquor
- Telecommunications and video programming
- Electricity and piped natural gas
- Aviation gasoline and jet fuel






» The local rate(s) do not apply to these transactions.

» The State distributes some of the proceeds of this State tax to municipalities.


Sales Tax Rates Across the State

Counties	State	+	Local	=	Total
<u>56 Counties</u> Alamance; Alleghany; Avery; Beaufort; Bertie; Bladen; Brunswick; Burke; Caldwell; Camden; Carteret; Caswell; Chatham; Chowan; Cleveland; Columbus; Craven; Currituck; Dare; Davie; Forsyth; Franklin; Gates; Granville; Guilford; Henderson; Hoke; Hyde; Iredell; Johnston; Lenoir; Macon; Madison; McDowell; Mitchell; Nash; Northampton; Pamlico; Pender; Perquimans; Person; Polk; Richmond; Scotland; Stokes; Transylvania; Tyrrell; Union; Vance; Warren; Washington; Watauga; Wayne; Wilson; Yadkin; Yancey	4.75%	+	2.0%	=	6.75%
<u>40 Counties</u> Alexander; Anson; Ashe; Buncombe; Cabarrus; Catawba; Cherokee; Clay; Cumberland; Davidson; Duplin; Edgecombe; Gaston; Graham; Greene; Halifax; Harnett; Haywood; Hertford; Jackson; Jones; Lee; Lincoln; Martin; Montgomery; Moore; New Hanover; Onslow; Pasquotank; Pitt; Randolph; Robeson; Rockingham; Rowan; Rutherford; Sampson; Stanly; Surry; Swain; Wilkes	4.75%	+	2.25%	=	7.0%
<u>2 Counties</u> Mecklenburg; Wake	4.75%	+	2.5%	=	7.25%
<u>2 Counties</u> Durham; Orange	4.75%	+	2.75%	=	7.50%

Local Sales Tax Rates and Distributions


Article	Rate	Purpose	Distribution	Levied By
Art. 39 1 st 1¢		Any lawful purpose	Generally point of collection; shared with cities.	100 counties
Art. 40 1 st ½¢		30%: School capital 70%: Any lawful purpose	Generally per capita; shared with cities.	100 counties
Art. 42 2 nd ½¢		60%: School capital 40%: Any lawful purpose	Generally point of collection; shared with cities.	100 counties
Art. 46 ¼¢		Any lawful purpose	Point of collection; county only.	42 counties
Art. 43 ½¢ or ¼¢	 or	Public transportation	Point of collection to county; shared per capita with cities that operate transit.	4 counties

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Art. 42 2 nd ½¢		60%: School capital; 40%: Any purpose	Generally pt. of collection; shared w/cities.	100 counties
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- » The tax proceeds for everything but groceries are returned 100% to the county that levied the tax.
- » Counties must share revenue with cities. Statute requires each county to choose whether to share on an *ad valorem* or per capita basis.
- » Grocery tax revenue is distributed using a separate formula.

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Art. 43 ½¢ or ¼¢		Public transportation	Pt of collection to county; shared per capita with cities that operate transit.	4 counties


» Non-grocery proceeds redistributed among 100 counties based on:

- County population.
- Adjustment Factors enacted in 1988, based on where sales occurred at that time.
- Redistribution Factors enacted in 2015, designed to push money to counties that would benefit if Article 42 (not this Article) were distributed per capita.

» Counties must share with cities as with Article 39.


» Grocery tax revenue is distributed using a separate formula.

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Art. 46 ¼ ¢		Any lawful purpose	Point of collection; county only.	42 counties
Art. 43 ½¢ or ¼¢		Public transportation	Pt of collection to county; shared per capita with cities that operate transit.	4 counties

- » Non-grocery proceeds are redistributed among 100 counties based on:
 - County where the sale occurred (“point of collection”).
 - Adjustment Factors enacted in 1988, based on where sales occurred at that time.
 - Redistribution Factors enacted in 2015, designed to push money to counties that would benefit if this Article were distributed per capita.
- » Counties must share the proceeds with cities as with Articles 39 and 40.
- » Grocery tax revenue is distributed using a separate formula.

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Art. 43 ½¢ or ¼¢		Public transportation	Pt of collection to county; shared per capita with cities that operate transit.	4 counties

» Enacting Article 46 requires a successful referendum.


- Counties held 34 referenda in 2018-2019; 11 successfully passed the tax.
- The ballot language is written in Statute.

» All funds are returned to the county where the tax is levied.

» Counties do not share proceeds with cities.

» This tax does not apply to groceries; otherwise, the base is the same.

Local Sales Tax Rates and Distributions

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Art. 43 ½¢ or ¼¢	 or	Public transportation	Pt of collection to county; shared per capita with cities that operate transit.	4 counties

- » Statute allows 6 counties to levy this tax at ½¢; the remaining 94 may levy the tax at ¼¢. Enacting Article 43 requires a successful referendum.
- » All funds are returned to the county where the tax is levied.
- » The county shares the transit tax proceeds with any of its cities that operate a transit system.
- » Tax does not apply to groceries.

Distribution of Sales Tax Proceeds from Grocery Sales

- » The State sales tax (4.75%) on groceries was repealed in 1999; the local 2% tax remains in place.
- » 50% is distributed per capita based on county population, but adjusted using the Adjustment Factors enacted in 1988, based on where sales occurred then.
- » 50% is distributed to counties proportionally based on the amount of sales tax on groceries collected per county in FY 1997-1998.

Local Sales Tax: Final Thoughts

- » Locals levy local sales taxes; the State collects, administers, and redistributes the tax proceeds.
- » The State retains a small portion of the proceeds to cover administrative costs.
- » Local sales taxes are redistributed among the 100 counties in complex ways that have grown increasingly complex and outdated.
- » In February, you will hear a presentation from staff about ways to simplify and modernize the distributions.